THE CANADA PENSION PLAN

GOVERNMENT OF CANADA
Department of National Health and Welfare

August 1964

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Scope of the Plan

The Canada Pension Plan is designed to extend social insurance protection to people in retirement, to widows, orphans and the disabled. It will be a basic part of Canada's social security system.

In the resolution proposed in the House of Commons in July 1963, and the statement tabled at that time, the Government made known its objective for retirement pensions. This is to establish a contributory pension plan ensuring that, as soon as is possible in a fair and practical way, all Canadians will be able to look forward to retiring in security and with dignity.

In order that this major social advance should be effective for everyone, it is not enough to have adequate pension schemes available in all parts of the country. The pension arrangements across the country need to be of such a nature that they do not set up obstacles to the movement of people. The benefits have to be portable for people who change jobs and homes. Therefore the pension plan should be nation-wide in character.

In July 1963 the Government pointed out that "a full programme of social insurance would provide benefits for survivors and disabled persons who have not reached an age at which benefit would normally be considered an old age pension. Doubts have been expressed whether such benefits are within federal jurisdiction under the existing provisions of the British North America Act. Certainly such programmes as now exist for these people are provincially administered. This is, accordingly, a subject which requires full consultation and discussion. . . ."

After such consultation, agreement was reached with the provinces for an amendment to section 94A of the British North America Act, so that the federal Parliament can legislate for these supplementary benefits.

The Canada Pension Plan will provide pensions for widows and dependent children of contributors who die. Apart from workmen's compensation and veterans' pensions, only public assistance measures such as mothers' allowances have been available to aid survivors. Similarly, disabled people have hitherto depended on assistance programmes, such as blind persons' allowances and allowances for the totally and permanently disabled. Under the Canada Pension Plan there will, for the first time, be social insurance protection against disability.

Federal-Provincial Co-operation

Our constitution provides that, while the Parliament of Canada may legislate about pensions, and now also about supplementary benefits, federal legislation shall not affect the operation of any present or future provincial legislation with respect to pensions.

The federal objective therefore can be achieved only in co-operation with the provinces. Pension plans are of great interest to the provinces not only in themselves but also because of their implications for savings. All provinces have expressed views about pensions. The province of Ontario has legislation dealing with the regulation of private pension plans. The province of Quebec began developing a public pension plan in August 1963. And other provinces have shown natural concern to safeguard their rights of jurisdiction and to ensure that federal legislation is satisfactory to them in areas of mutual interest.

Having outlined its proposals in July 1963, the government has sought to develop its plans in consultation with the provinces and in ways which meet, as fully as practicable, the various viewpoints and interests of the provinces. To this end, pensions have been under discussion at four federal-provincial conferences in 1963-64, and there have been numerous consultations with provincial officials. The federal government entered into these consultations prepared to make adjustments to its proposals provided that the fundamental purposes of its pension plan were achieved and a number of modifications were made with a view to meeting suggestions put forward in those discussions.

It has been plain throughout that any province preferring to have its own plan would be free to do so. One province, Quebec, made this choice. The province of Ontario, whose legislation had provided for the compulsory extension of private plans and which was considering the possibility of a provincial plan, urged the view that the most important consideration was to establish a country-wide plan. All provinces endorsed this objective. When the proposals of the Quebec government were made known in April 1964, it fortunately appeared that the differences between the two sets of proposals were not too great to bridge. Accordingly, the two governments were able to agree that the sound way to launch so far-reaching a social measure was to bring their plans together, so that they will provide common pension arrangements for all Canadians across the country.

The consultations and complex work of the past twelve months have succeeded in developing the plan outlined in this document. There has been no change in the objective or the fundamental features of the plan. Many of the details, also, are the same. But there are some important changes, the effects of which are:

(1) The scale of pensions at the end of the transition period will be 25% of earnings.

(2) The first $600 a year of earnings will be exempt from contributions; in effect, this results in a graduated contribution rate which increases as the level of one's income rises, up to a ceiling of $5,000.

(3) For people earning over $1,350 a year, the contribution rate will be higher, at the outset of the programme, than the 1% previously

proposed. The plan will therefore accumulate larger funds, which will be lent to the provinces.

(4) Compulsory coverage has been broadened to include almost all employees and self-employed people; employees must contribute on earnings over $600 a year, and self-employed people whose total earnings are $800 or more a year must contribute on their earnings over $600.

(5) Any province administering such a plan will be asked to administer the federal pension provisions for employees under federal jurisdiction in that province. The one province proposing to follow this approach has agreed to do this.

(6) The effective date of the plan will be January 1966 instead of 1965.

Main Features of the Pensions

The plan is comprehensive in the sense of covering as many people as is practicable. It is *not* intended to provide all the retirement income or survivors' income which many Canadians wish to have. This is a matter of individual choice and, in the Government's view, should properly be left to personal savings and to private pension plans, subject in the latter case to such degree of supervision as the provinces may think appropriate. The 1963 Ontario legislation is the first example in Canada of an attempt at close supervision of private plans. Similar legislation has been proposed by the governments of Manitoba and Quebec.

The purpose of the Canada Pension Plan is to make reasonable minimum levels of income available at normal retirement ages, and to people who become disabled, and to the dependents of people who die. There will be scope for the continuation and extension of private pension plans to provide benefits over these minimum levels.

The present minimum provided in Canada is the old age security benefit of $75 a month from age 70, but many people are unable to go on earning until they reach age 70.

Adequate levels of pensions cannot be realistically achieved, in a country like Canada, simply by increasing the flat-rate pension. Living costs vary greatly between town and country, and between different regions of Canada. What people need, if either retirement or the death or disablement of the head of the family removes their regular income, is related in part to the level of earnings to which they have been accustomed.

The Canada Pension Plan will therefore provide a retirement pension related to the earnings on which people have contributed. The scale of this pension will rise during a ten-year transitional period to a level of 25 per cent of these earnings.

The principal features of the benefits under the plan are:—

1. An earnings-related pension will be available to contributors at any age between 65 and 70, provided they have retired from regular employment. At age 70, the pension will be available as of right, whether retired or not.

2. The existing flat-rate Old Age Security pension will also become available at any age between 65 and 70, according to the preference of the pensioner. But the amount of this pension will be graduated, depending on the age at which it starts, so that anyone who survives to the age of average life expectancy will receive about the same total payment, from the age he starts his pension to the time he dies, whatever starting age he chooses. This means that, compared with $75 a month from age 70, anyone who begins to take Old Age Security as soon as he or she is 65 will receive a pension of $51 a month (in addition, of course, to any earnings-related pension). The adjustment cost of making this choice available will be financed by the existing rates of tax for Old Age Security.

3. A pension will be paid to all widows caring for their dependent children and to others if they are widowed at age 35 or older. This pension will have two components: a flat-rate pension, which at the outset will be $25 a month, and an earnings-related pension which will be 37½ per cent of what the husband's retirement pension would have been. These amounts will be reduced for women without dependent children who are under 45 when their husbands die.

4. A pension will be paid to disabled contributors. The flat-rate pension in this case will also be $25. The earnings-related pension will be 75 per cent of what the retirement pension would have been.

5. A flat-rate benefit of $25 will be paid to orphans. It will be payable until they reach age 18, or to age 25 if attending school. Total payments to the children of one contributor cannot exceed the maximum retirement pension payable.

6. A benefit will be paid when a contributor or a pensioner dies. This lump-sum payment will amount to six times the monthly retirement pension that could have been paid, but will not exceed $500 at the outset.

Timing

Collection of contributions will begin in January 1966. At that time the flat-rate Old Age Security pension will become available to people who have reached age 69. Earnings-related retirement pensions will begin in January 1967. At this date, people will be able to draw pensions, both flat-rate and earnings-related, at age 68. By 1970 both these pensions will be available at age 65. Widow's pensions, orphan's benefits, and death benefits will first be paid in January 1968, when contributions for two years will have been made. Pensions for disabled contributors and disabled widows and widowers will become payable in January 1971.

Until the plan is ten years old, the rates of the retirement pension will build up steadily. In 1967, after one year's contribution, the retirement pension will be 2.5 per cent of earnings, or $10.42 a month for anyone whose year's earnings were $5000 or more. For anyone retiring at age 67 or older in 1968, the pension will be 5 per cent of earnings, and so on until the top rate of 25 per cent of earnings is reached after ten years. This steady increase in the size of pensions payable each year is illustrated in Table I.

The Old Age Security pension will, of course, be available in addition to the new retirement pension.

The gradual build-up of pensions over a ten-year period will not apply in the case of survivors' and disability pensions, which will be payable in full in 1968 and 1971 respectively.

TABLE I

MONTHLY RETIREMENT PENSION DURING EARLY YEARS OF THE PLAN

(assuming consumer price index unchanged)

Average Monthly Earnings	Monthly Retirement Pension Payable at Beginning of		
	1968	1971	1976
$	$	$	$
100	5.00	12.50	25.00
200	10.00	25.00	50.00
300	15.00	37.50	75.00
400	20.00	50.00	100.00
416.67	20.83	52.08	104.17

Financing

Since the new pensions will be related to earnings, the Canada Pension Plan will be financed by contributions based on earnings. The first $600 of each person's annual earnings will be exempt from contributions. On earnings above that amount, and up to a ceiling which will initially be $5000 a year, the employee will make a contribution of 1.8 per cent.

The effect of the exemption is that people with relatively low incomes will make a smaller contribution, for each dollar of pension to which they become entitled, than will people with higher incomes.

An employee earning $1000 a year will contribute on $400; he will thus pay $7.20 a year, or 0.7 per cent of his total earnings. At the other extreme, a man earning $5000 a year will make the maximum contribution of $79.20 a year, which is 1.6% of his earnings. On earnings of $3600 a year the employee's contribution is 1.5 per cent of earnings.

In monthly figures, the employee contributions will be:

earnings $100 a month, contribution 90 cents a month;

earnings $200 a month, contribution $2.70 a month;

earnings $300 a month, contribution $4.50 a month;

earnings $400 a month, contribution $6.30 a month.

Employers will make a matching contribution of 1.8% on employees' annual earnings between $600 and $5000.

Self-employed people will pay the combined rate of 3.6%, on annual earnings between $600 and $5000, provided that their total annual earnings are $800 or more.

Contributions will be deductible from income subject to tax, as for private pension plans. Contributions will not be required before the age of 18. They will stop when a benefit begins, which may be between 65 and 70, but in no case later than 70. Pensions will be taxable like other income.

The Canada Pension Plan will be entirely self-financing. That is, the contributions will cover the cost of benefits, including the cost of administration.

The revenues of the plan, over and above those needed for current operations, will be available for the use of the provinces; they will be divided in proportion to the amounts paid into the plan by contributors in each province. Provincial governments will thus have the right to use of the funds, provided they undertake to pay interest to the pension fund at a rate not less than the rate for long-term federal borrowing. Any funds which a province does not wish to take up would be invested in federal government securities, but the principal assets of the fund will be obligations of provincial governments. It is estimated that the reserves in the federal fund will be more than $4 billion by the end of the first ten years.

Periodic actuarial reports on the anticipated revenues and expenditures of the pension fund will be published. The reports will be reviewed by an advisory committee which will be set up to report to the Government on the operation of the plan. The legislation will also require that special actuarial reports must be made to estimate the long-term costs of any proposals to change the benefits or other major features of the plan.

RETIREMENT PENSIONS

Calculation of Benefit

Pensions are to be 25 per cent of "what a man has been earning".

This obviously cannot mean what the pensioner earned in, say, the last year, or even few years, before beginning the pension. That would be very unfair to the man who suffered sickness or unemployment in the last few years before retirement. On the other hand, the pensioner cannot be allowed to pick the best year or few years of his earning record; that would excessively favour the man whose earnings have been erratic.

The pension benefit will therefore be based on the man's average earnings from the effective date of the plan to the time when he starts to draw his pension. These earnings cannot, however, be used without adjustment. To do so would mean that, as the general level of earnings rises over the years, there would be a widening span between earnings recorded in the early years and those shortly before retirement. The pension benefits paid would therefore be a declining proportion of "what a man has been earning" shortly before retirement. Accordingly, for calculating pensions, earnings will be adjusted in line with changes in the general level of salaries and wages.

The ceiling for earnings under the Canada Pension Plan has been set at $5000 for the first two years of the plan. During the rest of the transitional period, the ceiling will be adjusted upward if there are increases in the cost-of-living (measured by the consumer price index), but not by more than two per cent in any year. After the ten-year transitional period has ended, a long-term moving average of wages and salaries will be used to adjust the ceiling, because it is the most appropriate means of keeping pensions in line with earnings.

In the calculation of a man's average earnings, his wages or salary for, say, 1970 will be adjusted by the ratio between the average earnings ceilings in the three years before retirement and the ceiling for 1970. This will be done for each year for which he contributes. In this way, his past earnings will be re-valued to their current equivalent before his average earnings are calculated.

Under this formula, a man who in some years does not contribute to the plan will get a smaller pension than if he contributed all the time. However, it is important not to penalise people whose earnings in some years are abnormally low because of sickness and unemployment. This will be avoided, to a reasonable degree, by excluding a man's years of lowest earnings from the calculation of his average earnings. The permissible exclusion will be 10%. Also, for each year beyond 65 that a man continues to work, he will be able to exclude, from the calculation of his average earnings, an additional low year. This will provide an incentive to go on working after 65.

In considering the size of the pension available to a man on retirement, both the earnings-related and the Old Age Security pensions must be taken

into account. At existing wage and price levels, the total pension available in 1976 to a single person at age 70 will range from $75 to almost $180 monthly, as indicated in Table II.

TABLE II

COMBINED PENSIONS AVAILABLE TO SINGLE CONTRIBUTOR AT AGE 70

Average Monthly Earnings	Monthly Pension Payable: Earnings-related Pension	Old Age Security Pension	Combined Pension
$	$	$	$
nil	nil	75	75.00
100	25.00	75	100.00
150	37.50	75	112.50
200	50.00	75	125.00
250	62.50	75	137.50
300	75.00	75	150.00
350	87.50	75	162.50
400	100.00	75	175.00
416.67	104.17	75	179.17

Adjustment for Increases in the Cost of Living

The formula described in the preceding section will ensure that a pension when it first becomes payable will be appropriate to current levels of earnings. Pensions being paid will be increased periodically if the level of prices rises. This applies to all pensions under the Canada Pension Plan—the earnings-related retirement pension, the disability pension, the widow's pension, and the orphan's benefit. They will be increased annually, if this is warranted by increases in the Consumer Price Index. Small increases—less than one per cent—will not be taken into account; and in order to avoid excessive changes, the increase will never be more than two per cent from one year to the next. In any year when prices decline, pensions will not be reduced but subsequent increases will, of course, be slowed down as a result.

These adjustments will be made by using a pension index. The pension index for any year will be the Consumer Price Index for the twelve months ending the preceding June 30, revalued with the July 1965-June 1966 index as the base, except that the pension index will be allowed to rise by increments of not less than one per cent and not more than two per cent in any one year. If price changes indicate an increase of less than one per cent in the pension index, it will remain unchanged for that year; if the increase indicated is more than two per cent, the pension index will be increased by only two per cent. In adjusting a man's pension for, say, 1980, the amount of the monthly pension payable to him in 1979 will be multiplied by the percentage increase in the pension index for 1980 over the pension index for 1979.

Adjustment for Age

In conjunction with the introduction of the Canada Pension Plan, the existing Old Age Security system will be adapted to make pensions available, by 1970, from age 65. Such benefits will be reduced by forty

cents for each month between the date when the pension starts and the date of the pensioner's seventieth birthday. For anyone who takes his pension at the earliest opportunity, when he reaches 65, the pension received will be $51. The reduction at ages between 65 and 70 will be proportional to this.

The effect of this adjustment for age, when taken together with the gradual reduction in the age at which the Old Age Security pension will become available, is set forth in Table III.

TABLE III

FLAT-RATE PENSION AVAILABLE TO SINGLE PERSON AT AGES 65 TO 70 IN THE PERIOD 1966 TO 1970

Age of Pensioner	Year First Payable	Monthly Flat-rate Pension Payable
		$
70	1963	75.00
69	1966	70.20
68	1967	65.40
67	1968	60.60
66	1969	55.80
65	1970	51.00

There will be no retirement condition for this flat-rate pension: a man may start drawing the appropriate rate of pension at any time between his sixty-fifth and seventieth birthdays, whatever his other earnings. Once he elects to draw his pension he cannot go off pension for a while and then come back on at a higher rate.

At existing wage and price levels the total pension available in 1976 to a single person at age 65 will range from $51 to $155 monthly, as indicated in Table IV.

TABLE IV

COMBINED PENSION AVAILABLE TO SINGLE CONTRIBUTOR AT AGE 65

Average Monthly Earnings	Monthly Pension Payable		
	Earnings-related Pension	Old Age Security Pension	Combined Pension
$	$	$	$
nil	nil	51	51.00
100	25.00	51	76.00
150	37.50	51	88.50
200	50.00	51	101.00
250	62.50	51	113.50
300	75.00	51	126.00
350	87.50	51	138.50
400	100.00	51	151.00
416.67	104.17	51	155.17

Adjustment for Earnings After Retirement

The earnings-related benefit is designed for people who have retired from regular employment. It will not be adjusted according to the age of retirement. But some people may be partially retired and entitled to receive a partial pension. The test of retirement, for people under age 70, will be a test of earnings from work. Earnings will consist of all wages and salaries received from services rendered in the year, plus any net earnings from self-employment for the same year.

Deductions will be made from the benefit of a contributor under age 70 if his annual earnings exceed $900 a year, or a proportionate amount if he retires part way through the year. When earnings exceed $900 a year, but not $1500, the total benefits for that year will be reduced by one-half the excess.

When earnings exceed $1500 a year, the benefits for that year will be reduced by $300 (which is one-half the difference between $1500 and $900) plus the earnings in excess of $1500. These $900 and $1500 limits will apply for the first few years of the programme, but will be defined as percentages (18% and 30% respectively) of the earnings ceiling. They will thus rise to reflect changes in the general levels of prices and earnings.

SUPPLEMENTARY PENSIONS

The supplementary pensions, for widows, orphans and disabled contributors, have to meet situations fundamentally different from retirement pensions. The latter will normally be combined with the Old Age Security benefit, and it is the two together that make a modestly adequate income. Since this flat-rate pension will not be available to people under 65, the supplementary pensions will include their own flat-rate component. At the outset, this will be $25 a month. It will be adjustable, in the same way as other benefits provided under the contributory pension plan, in line with changes in the consumer price index.

This flat-rate component means that the supplementary pensions are in a sense more generous, especially for lower-income people, than the new retirement pensions. This is reasonable, because of the special needs of widows, orphans and disabled people. However, the $25 flat-rate component is a good deal less than the Old Age Security available to retired people. The supplementary pensions would thus be too small to be helpful in the early years of the plan, if they were subject to the same ten-year build-up as the retirement pensions. Instead, they will be paid in full from the time they are first available.

However, because of the substantial flat-rate component in these benefits, it is reasonable to require a minimum period of contribution as a condition of getting any benefit. All supplementary pensions will be dependent on contributions having been made for at least two years and for at least a third of the total number of years possible for the contributor. In addition, disability benefits will not be paid until the plan has been in operation for five years (i.e. until 1971).

Disability Pensions

A contributor will be regarded as disabled if an examination reveals a medically determinable impairment in which physical or mental disability is so severe and prolonged that he is unable to secure regular, substantially gainful employment. This does not mean he has to be completely helpless to qualify; it means he must be found unable to support himself by reason of his disability.

The disability pension will consist of a flat-rate component, initially $25 monthly, and an earnings-related component which will be 18.75 per cent of "what a man has been earning"—that is, 75 per cent of the retirement pension which would be payable to him. The amount of this retirement pension will be calculated in the same way as outlined above, except that, instead of basing the pension on his earnings from the effective date of the plan to the date he retires or reaches 65, it will be based on his earnings to the date of disability.

The total disability pension thus available to a contributor will range from just over $25 to $103, as Table V shows. Both the flat-rate and earnings-related components will be increased in line with changes in the Consumer Price Index, as described on page 12.

Table V

MONTHLY DISABILITY PENSION

Average Adjusted Monthly Wage	Monthly Retirement Pension	Disability Pension — $25 plus 75 p.c. of Retirement Pension
$	$	$
100	25.00	43.75
150	37.50	53.13
200	50.00	62.50
250	62.50	71.88
300	75.00	81.25
350	87.50	90.63
400	100.00	100.00
416.67	104.17	103.13

This pension will be paid to a contributor for as long as he continues to be disabled, up to age 65, but will cease on his death or recovery. At age 65 it will be replaced by the retirement pension.

Pensions for Widows Under Age 65

The widow of a contributor or pensioner who dies will be able to draw a pension from the plan if her husband had contributed for at least two years and for at least one-third of the years in which he could have contributed.

In order to qualify for the pension, the widow herself must be age 35 or over, or must have dependent children in her care. Younger widows without children dependent on them can reasonably be expected to take up full-time employment. Dependent children must be under age 18, unless they are continuing full-time education.

A woman who is widowed at an age between 35 and 45, and has no dependent children, will receive the widow's pension reduced by 1/120 for each month of age by which she is short of age 45 in the month in which she is widowed. If a widow has dependent children but they reach age 18 before she is 45, her pension will then be reduced to the same scale.

The full widow's pension—available to women widowed at age 45 or over, and to all widows with dependent children—will consist of a flat-rate component, starting initially at $25 monthly, and an earnings-related component equal to 37.5 per cent of the retirement pension payable to her deceased husband. The amount of the retirement pension payable to her husband will be based on his earnings to the date of his death, rather than on his earnings to the year in which he would have reached 65.

The amount of the widow's pension payable to a widow between the ages of 45 and 65, without dependent children, will thus range from just over $25, for the widow whose husband had minimal earnings, to $64, as indicated in Table VI.

A widow of any age who has dependent children will receive not only her own widow's pension but also the orphan's benefit on behalf of her children, as described in a following section. The amount of the

total pension thus payable to such a widow will range from just over $50, for the widow with one child whose husband had minimal earnings, to $168 for the widow with five children whose husband had maximum earnings, as shown in Table VII.

TABLE VI

PENSIONS FOR WIDOWS UNDER AGE 65 WITHOUT DEPENDENT CHILDREN

Average Adjusted Monthly Wage of Husband	Husband's Monthly Retirement Pension	Widow's Monthly Pension[1]
$	$	$
100	25.00	34.38
150	37.50	39.06
200	50.00	43.75
250	62.50	48.44
300	75.00	53.12
350	87.50	57.81
400	100.00	62.50
416.67	104.17	64.06

[1] $25 plus 37.5 per cent of husband's retirement pension. The widow's pension is reduced 10 per cent for each year by which she is under age 45 at date of her husband's death.

TABLE VII

PENSIONS FOR WIDOWS WITH DEPENDENT CHILDREN (INCLUDING ORPHANS' BENEFITS)[1]

Average Adjusted Monthly Wage of Husband	Retirement Pension of Husband	Monthly Pension to Widow with				
		One Child	Two Children	Three Children	Four Children	Five Children
$	$	$	$	$	$	$
100	25.00	59.38	84.38	109.38	134.38	138.55
150	37.50	64.06	89.06	114.06	139.06	143.23
200	50.00	68.75	93.75	118.75	143.75	147.92
250	62.50	73.44	98.44	123.44	148.44	152.61
300	75.00	78.12	103.12	128.12	153.12	157.29
350	87.50	82.81	107.81	132.81	157.81	161.98
400	100.00	87.50	112.50	137.50	162.50	166.67
416.67	104.17	89.06	114.06	139.06	164.06	168.23

[1] Widow's pension equals $25 plus 37.5 per cent of husband's retirement pension. The benefit for each orphan is $25, up to a maximum for all orphans in a family of 25 per cent of average of Year's Maximum Contributory Earnings for the three years ending with that in which benefits are claimed.

Pensions for Widows Over Age 65

The widow's pension itself will be paid to a widow to age 65, unless she ceases to have dependent children in her care before passing age 35. It may continue after age 65, but between then and, at latest, age 70, there will be some change in her position. She will normally start to draw Old Age Security. When she does, she will give up the flat-rate component ($25, initially) of her widow's pension.

Furthermore, many widows will at age 65, or at latest at age 70, become entitled to a retirement pension based on their own earnings. In that event, the widow will be able to combine the two pensions to which she is entitled, in whichever of two ways is the better for her: (1) all of her own retirement pension plus 37½% of what her husband's retirement pension would have been; or (2) 60% of her own pension and 60% of her husband's. In both these cases the calculation of her husband's pension would take into account any years of zero earnings between the year of his death and the year in which he would have reached age 65.

In no case may the widow receive a combined pension which is greater than the maximum retirement pension payable to an individual contributor in that year.

It is anticipated that those widows who had little opportunity to build up retirement pensions of their own will continue to receive the basic widow's pension after age 65, and that women who become widows after age 65 will usually choose to receive 60 per cent of their own and their husband's pensions combined. However, widows who have built up substantial retirement pensions, whether or not they were entitled to the widow's pension before age 65, will probably choose to receive their own retirement pensions in full, augmented by 37.5 per cent of their husband's pensions, calculated as explained above. All widows of 65 or over will be entitled also to an Old Age Security pension, provided they meet the residence requirements.

Pensions for Disabled Widows and Widowers

From 1971 on, a disabled widow will be able to draw the full widow's pension. A widower will be able to draw a pension from the plan if he was disabled at the time of his wife's death.

For both widows and widowers, the pension will be $25 monthly plus 37.5 per cent of the retirement pension payable to the deceased spouse, based on the spouse's earnings from the effective date of the plan to the date of death.

Orphan's Benefit

An orphan's benefit will be paid for the child of a contributor who has died after contributing for at least two years, and for at least one-third of the years in which he could have contributed. Ordinarily the orphan's benefit will only be paid on the death of a child's father. However, if the mother was the main support of the family, the orphan's benefit will be payable on her death. To qualify for the benefit, the child must be under 18 on the death of his parent, or be still at school or university.

The amount of the orphan's benefit will at the outset be $25 a month, for each orphan in the family. It will be adjusted with changes in the cost of living. The total payment for the children of a contributor may not exceed the maximum possible pension for one contributor—that is, at the outset, $104.17. If more than one cheque has to be issued, the total monthly orphan's benefit for the family will be prorated among all the orphans.

Death Benefit

A lump-sum death benefit will be payable if the deceased person has contributed for at least two years, and for at least one-third of the years in which he could have contributed. In most cases, if the contributor is survived by his wife, the death benefit will be paid to her. Otherwise it will be payable to his estate.

The amount of the death benefit will be a sum equal to six times the monthly retirement benefit that could have been paid to the contributor in the month after his death, but not exceeding ten per cent of the earnings ceiling for that year. That is, initially, the maximum will be $500. If the contributor dies before 65, the benefit will be based on his average earnings from the effective date of the plan to the month of his death.

Administration

The Department of National Health and Welfare will administer the Canada Pension Plan. The contributions under the plan will be collected by the Department of National Revenue. Employers will be responsible for deductions from their employees' earnings and will then remit these deductions monthly with their own contributions to that Department; self-employed persons will make payments direct to the Department.

The Department of National Health and Welfare will be responsible for the payment of benefits. The Department of National Revenue will report to the Department of National Health and Welfare the pensionable earnings so that the information can be credited to each individual contributor's account. Contributors' records will be kept in a form which will permit identification according to the province in which contributions have been made over the years. The maintenance of the records and the calculation of benefits will be achieved through the use of modern data processing equipment. The Social Insurance Number, which has already been issued to over 5 million people by the Unemployment Insurance Commission, will be extended to embrace all contributors under the Canada Pension Plan and used to facilitate the electronic recordkeeping.

The administration of the federal legislation will be co-ordinated with the administration of any provincial legislation providing a comparable plan. The province of Quebec proposes to implement such a plan, and co-operative arrangements are being worked out so that people who at one time or another make contributions to both administrations have exactly the same rights and benefits as if they had contributed to only one plan.

The necessary provisions will be made for appeal procedures to ensure that contributors, beneficiaries and employers may have an impartial review of any disputes which may arise in relation to the programme.

The proposed legislation will provide authority to work out reciprocal agreements with other countries, so that there may be portability of pensions for people who move between countries.

Safeguards for the Provinces

The financial provisions of the Canada Pension Plan assure to the provinces a direct and important interest in its operation. This properly reflects the constitutional position. The provinces have full jurisdiction to establish pension plans themselves, and Quebec proposes to do so. All the governments concerned recognize, however, that common jurisdiction should not be allowed to result in competition or conflict in pension arrangements.

Soundly-based federal-provincial co-operation depends on all provinces retaining, not only in theory but as a practical choice, the same

rights that can be exercised now. The proposed federal legislation is being shaped to this purpose.

There will be safeguards to ensure that significant changes in the pension plan are made only after agreement with the provinces. Any amendments of substance, which would affect benefits, contribution rates, or the size and management of the pension fund, will take effect only if they are consented to by two-thirds of the provinces having two-thirds of the population of Canada. In the case of amendments which would alter the general level of benefits, the effective date of the change will be the first of January of the third year after the year in which notice is given to the provinces—that is, there will be a notice period of at least two years.

As a further safeguard of the position of the provinces, the federal legislation will provide that it would automatically become inoperative in a province which passed legislation establishing a provincial pension plan with a general level of benefits not less than that of the Canada Pension Plan or of any provincial plan already in operation. This would be contingent on the province giving at least two years' notice. In order that the province's right to establish its own plan may be effective, without the residents of the province losing the pension benefits they have already earned by their contributions, the federal plan would transfer to the province its fair share of the pension assets. In return, the province would assume the obligation to pay pensions to those who have contributed in that province.

With these provisions, the rights of the provinces will be safeguarded and the federal government believes that, on the necessary foundation of mutual respect and consideration, federal and provincial authorities throughout Canada will be able to work together to establish and maintain satisfactory pension arrangements for all Canadians.

Relation to Other Retirement Plans

A helpful contribution to old age security has been made, particularly since World War II, by the private pension plans which, at last count (1960), covered more than 1,800,000 people in Canada. Not all of these plans, however, provide sizeable pensions, particularly for workers who did not join them early in life. Also, since an employee rarely has a right to full benefit from his employer's contribution if he moves to another job, private plans have operated as a growing restraint on the mobility of labour.

Several provinces are interested in lessening these and other problems connected with private pension plans, particularly by the establishment of rules for portability and solvency. These are important steps forward. However, such proposals for the compulsory supervision of private plans do not make possible retirement at an adequate standard for most people in their forties to sixties who have not been covered previously.

For those who retire in the next decade or two the Canada Pension Plan matures quickly to provide substantial retirement income. It will automatically provide complete portability of these pensions. Furthermore, it will provide a basic measure of "real" security, because people

will be assured of pensions that are related to general earnings levels at the time they retire, and to the levels of prices during their retirement.

The plan has been designed to meet these needs of the Canadian people and at the same time to become the foundation of a pension system which, through the combination of private and governmental action, will be sound and satisfactory in the long run.

Some employers and employees will no doubt wish to revise existing pension plans in the light of their contributions to, and the benefits provided under, the Canada Pension Plan. The ten-year transitional period means that such adjustments can be made carefully and gradually.

The adjustment of private pension plans cannot be prescribed through the Canada Pension Plan. Those responsible for each private pension plan will be free to decide whether or not they wish to make some modification in their plan. In plans where the contribution rates are relatively high, it may be decided that the overall rate of employer-employee contributions should not be increased; in such cases the private plan's contribution rate might be reduced by the contribution required under the federal plan, and its benefits might be adjusted accordingly. In other cases, the private plan may remain entirely unchanged, with its benefits augmenting those available from the Canada Pension Plan.

As an alternative way of adjusting to the Canada plan, a private plan may simply pay the difference between the total retirement benefit it now provides and the benefit provided under the federal plan; the private contribution rates would then be reduced accordingly. Another possibility would be to adopt a benefit formula which makes different adjustments for earnings above and below the Canada Pension Plan ceiling.

Another approach may be adopted in private plans with early retirement ages. The private plan benefits might be accelerated so as to provide a level combined benefit beginning at, say, age 60. The private plan would thus provide a higher pension between ages 60 and 65 than would normally be provided, offset by a lower-than-normal private pension from age 65 on. The difference would be made up by the Canada Pension Plan payable at age 65.

The Canada Pension Plan will NOT take over or absorb reserves that have been built up by private pension plans. The Canada Pension Plan will NOT remove any rights to benefits already acquired under private plans. The integration of private plans with the public plan will NOT be compulsory.

The adjustment of private pension plans to a public programme with graduated benefits does not appear to have been a deterrent to the growth of private plans in other countries. In the United States, for example, since the Old Age, Survivors and Disability Insurance programme was established, there has continued to be a substantial growth in private pension plans. The number of employees in the United States covered by private pension plans, expressed as a percentage of the wage and salary workers in private industry, rose from 31 per cent in 1954 to 45 per cent in 1961.

Economic Implications

The Canada Pension Plan is a social security programme which is realistically geared to the growth of the economy. Within a moderate transition period, people of average incomes will be assured a reasonable retirement pension, together with related social insurance protection for widows and children and people who become disabled. If our economy continues to grow in the way that it has been, with incomes rising both in money terms and in real value, people who make contributions now can be assured of pensions which will be appropriate to real income levels at the time they retire.

Related in this way to economic circumstances, the plan provides a level of pensions which is appropriate to a society that values the security and dignity of those whose working life is past or who suffer the major misfortune of death or disablement of the family bread-winner.

Protection beyond that level will remain a matter of individual choice. That is to say, the individual—in association in many cases with his employer—will remain responsible for the saving by which, as incomes rise, more and more people can afford to make further provision for themselves if they so desire.

In doing this, people help to provide the capital which a rich and growing country needs for its further economic development. This role of private pension plans, helping to provide savings to finance investment, will continue to be of importance.

Fears are sometimes expressed as to the impact of social security measures on private saving. There is no evidence of adverse effects in the experience of Canada or of other countries at a broadly similar level of economic development. In Canada, the introduction of major social security programmes since the 1940s has not led to any declining trend in rates of saving.

The possible impact of the pension plan is, in any case, limited. It would be at its maximum if everyone—employee, employer and self-employed—paid the whole of his contribution to the plan out of money that he would otherwise have saved. In that event, and if there were no other adjustments at all, the plan would absorb in 1966 about 5 per cent of the total of personal and business saving. That will not happen, because in fact all the contributions will not be made out of savings. The point, however, is that even the biggest effect—an effect that in practice is impossible—would not be very large.

In the short run, there probably will be some diversion of personal and business savings to public saving, but the adjustment in personal and business savings will be much less than 5 per cent. Moreover, the contributions collected will for many years exceed the pensions paid out, the fund accumulating the reserves. For a decade and more this public saving, through the plan, will continue to exceed any direct effect that the payment of contributions is likely to have on personal and business saving. Thus the effect of the introduction of the plan will probably be, for some years, to increase the total savings of the country.

In the long run, the public saving through the plan—that is, the net addition each year to the plan's reserves—will gradually diminish. (This happens, other things being equal, under any pension plan, public or

private, as it matures.) The main effect of the plan will then be to transfer income from contributors—the working population—to retired and disabled people and to widows and orphans. Most of the recipients may be expected to spend the income. The money will be coming from people with a higher propensity to save. However, the existence of the basic pension plan may well in time greatly encourage the general idea of contributory pensions, and therefore lead to the extension of supplementary private plans. The further consequence of the introduction of the Canada Pension Plan would then be a higher rate of personal savings than would otherwise take place.

These are examples of possible tendencies which may be at work. Over the next few decades, with a large growth of incomes, there are likely to be many changes in the pattern of saving. On balance, the pension plan may in the long run somewhat increase or somewhat decrease total savings. The direction of the effect will vary with a multitude of circumstances. What is certain is that the magnitude of the possible effect, in either direction, is not very great. Important though the plan is as a basic measure of social security, it is not on a scale which will have massive economic effects.

The most important predictable effect is the change that will occur in the capital market. Over the first ten years, an average of about $400 million a year will become available to the provinces from the federal pension fund. The provinces will decide how this money will be used, but it is likely that they will employ it to finance social capital, such as schools and roads, and public utilities. These are the purposes for which provinces and municipalities have been borrowing since the war. The funds accumulated through the pension plan will thus be used largely for purposes which are among the most pressing and most important of all our needs for additional investment.

With the pension funds available to them, provincial governments will have correspondingly less need to borrow in the ordinary way, by selling securities to investors. What effect this will have upon the capital markets will depend to a considerable extent upon the changes which occur in business and personal savings. Whether or not these savings decline, one would expect that the capital markets would be inclined to direct a larger proportion of their funds toward corporate and government of Canada securities, and less toward provincial and municipal securities. If aggregate saving, aside from the Canada Pension Plan, remains relatively unchanged, then it would be reasonable to expect that borrowing for business purposes in Canada would tend to be less costly, and corporate and government borrowers would be less inclined to borrow in foreign markets.

The annual capital accumulation through the new pension funds must be compared with total national savings which are likely to average well over $10 billion a year over the next ten years. Whatever adjustments the capital markets must make, therefore, will be relatively moderate, compared with other adjustments—for example, because of movements of foreign investment—made in the past.

The conclusion of this analysis—that the financial effects of the pension plan will not be large—is fully supported by the experience of other countries. While a number of older systems date back to the late nineteenth century, the majority of pension programmes were initiated in the decades immediately preceding or following the second world war. Most now relate the rates of pensions in some way to the pensioners' prior earnings. Both Great Britain and Sweden, which initially had flat-rate pensions analogous to our Old Age Security, in 1959 added graduated benefits.

With Canada's pension provision concentrated on the flat-rate pension plus assistance payments, our present expenditures on supporting the incomes of older people are smaller, proportionately, than the comparable outlays in such countries as Australia, New Zealand, Britain and the United States. This is shown, for the years 1959 to 1963, in Table VIII.

TABLE VIII

OLD AGE AND AGED SURVIVORS BENEFITS AS PER CENT OF GROSS NATIONAL PRODUCT AT MARKET PRICES, SELECTED COUNTRIES, 1958-59 TO 1962-63

Country	1958-59	1959-60	1960-61	1961-62	1962-63
New Zealand	3.2	3.7	3.8	3.7	3.6
Great Britain	3.1	3.2	3.1	3.3	3.4
United States	2.3	2.4	2.6	2.7	2.7
Australia	2.0	2.1	2.1	2.4	2.3
Canada	1.9	1.8	1.8	1.8	2.0

The pension plan will change this situation only gradually, because the new pensions are paid only as people retire after making contributions to the plan. By 1975, as the transition period for benefits ends, it is estimated that expenditures for retirement pensions under the plan will amount to about 0.3 per cent of gross national product. This addition to Canada's expenditures will still leave them smaller, relatively, than those of three of the other four countries in 1963.

Expenditures under the plan will, of course, continue to rise gradually after 1975, as more and more people retire with the new pensions. The same trend may be expected to operate, in some degree, in other countries. There is no reason why we should take the level of old-age provision in any other country as an exact model. But, because of trade competition, it is the course of economic prudence to avoid very large divergencies between the proportion of income which we devote to old-age and the proportion in other countries.

Fears are nevertheless sometimes expressed that a public pension plan will raise business costs, reduce business savings, and impair the competitive position of Canadian industry. In fact, the total contributions required under the plan—by employers and employees—would represent in 1966 an addition of only about 2 per cent to total labour costs. During the past decade, average wages and salaries in Canada have risen by 3 to 4 per cent a year. These additional costs have been largely absorbed by rising productivity while Canadian prices have remained among the most stable, and the country's competitive position has strengthened.

In practice, the impact of pension contributions will not fall exclusively on costs. It will be distributed in various ways. In come cases, it will probably be offset by reduced contribution rates to those corporate pension plans which already provide high benefits. There will be some reduction in tax receipts, because the contributions are deductible. Some contributions may be paid out of personal income which would otherwise be spent or saved. Some business profits may be reduced. Some part of the cost may be paid in the end by consumers, because business may raise prices to offset the pension contributions. Whatever the relative weight of these various effects, no one of them will be heavy. The plan will provide to the people of Canada a continuing measure of security in a form well within the capacity of our economy.